AP Microeconomics
Test: What Is Economics?
Instructor's Version

Answers: Free-Response Questions

1. Economics

A. How does scarcity affect societies? (3 points)

Because of scarcity, societies develop economic rules and institutions to choose what wants get satisfied. This leads each society to distribute goods and services differently.

2 points for first sentence, 1 point for second sentence.

B. What are the three principal types of economies? (3 points)

Traditional, market, and command

1 point for each.

C. What are the three fundamental questions of economics? (3 points) **How does a free-market system answer each of them?** (3 points)

The market answers the question "What goods and services will be produced?" Producers answer the question "How will those goods and services be produced?" Whoever can pay determines the answer to the question "Who will get those goods and services?"

1 point for correctly stating each question, 1 point for identifying the way each is answered.

D. Define efficiency. (2 points) **Explain how it is achieved.** (2 points)

Efficiency is when no resources are being wasted. Efficiency is achieved when a reallocation of resources among producers will not lead to an increase in their combined output.

2 points for each sentence.

E. Define profit and explain how it is calculated. (4 points)

Profit is the difference between the price a seller receives and what the seller invested. Profit is calculated by subtracting the total cost of resources used in production from the total revenue received from sales.

2 points for each sentence.

© Copyright 2009 Apex Learning Inc. All rights reserved. This material is intended for the exclusive use of registered users only. No portion of these materials may be reproduced or redistributed in any form without the express written permission of Apex Learning Inc.

F. How do economists define a market? (2 points)

A market is a place where buyers and sellers exchange goods or services for a price on which they agree.

1 point for mentioning exchange between buyers and sellers, 1 point for mentioning agreed-upon price.

G. Describe the difference between microeconomics and macroeconomics. (2 points)

Microeconomics focuses on individual behavior, or the "small picture." Macroeconomics looks at the economy as a whole, or the "big picture."

1 point for each sentence.

2. The Free-Market System

A. What role does price play in a free-market system? (3 points)

Prices are a medium to exchange goods and services in free markets. Price indicates the value that buyers and sellers place on goods and services.

Either sentence is worth 3 points.

B. Summarize Adam Smith's argument for the free market. (6 points)

In a free-market economy, the government stays out of the economy. This enables producers and consumers to do what they want. They will act in their own self-interest and create the greatest benefit for all.

2 points for each sentence.

3. The Circular Flow

A. Describe the circular flow of economic activity. (4 points)

Resource owners sell their resources to business owners in the factor market. In exchange they get rent, wages, or interest. The business owners then use the resources they bought to make goods or services. Finally, they sell these goods and services in the product market, to the resource owners.

1 point for each sentence.

© Copyright 2009 Apex Learning Inc. All rights reserved. This material is intended for the exclusive use of registered users only. No portion of these materials may be reproduced or redistributed in any form without the express written permission of Apex Learning Inc.

B. What is the product market? (4 points)

The product market is where goods and services are exchanged for a selling price.

3 points for mentioning exchange of goods and services, 1 point for mentioning selling price.

C. What is the factor market? (1 point) **What are the three things sellers receive in this market?** (3 points)

The factor market is where resources and semi-finished products are exchanged. Landlords receive rent for land. Workers receive wages for labor. Investors receive interest for capital.

1 point for each sentence.

© Copyright 2009 Apex Learning Inc. All rights reserved. This material is intended for the exclusive use of registered users only. No portion of these materials may be reproduced or redistributed in any form without the express written permission of Apex Learning Inc.